

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Alpena County Road Commission		County Alpena County	
Fiscal Year End December 31, 2006		Opinion Date April 11, 2007		Date Audit Report Submitted to State June 19, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

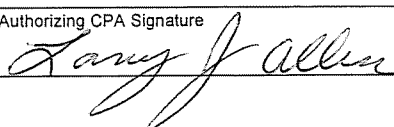
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☒ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Report on Internal Control	
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue			City Port Huron	State MI
			Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements -	
Governmental Fund Balance Sheet/Statement of Net Assets -	7
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities	8
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Budget and Actual	9
Notes to Financial Statements	10
Supplementary Information -	
Detail Schedule of Revenues	22
Detail Schedule of Expenditures	23
Schedule of Revenues, Expenditures and Changes in Fund Balance – By Fund Balance Sub-Accounts	24



INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Alpena County
Alpena, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Alpena County, Michigan, a component unit of Alpena County, as of December 31, 2006 and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Alpena County, Michigan, as of December 31, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 11, 2007, on our consideration of the Road Commission of Alpena County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on pages 22-24 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Alpena County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

April 11, 2007

ALPENA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Alpena County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Alpena County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Alpena County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Alpena County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The Alpena County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$32,083,282 at the end of the year. This is an increase of \$819,799 from December 31, 2005.

The net assets are separated into three major components, investment in capital assets, which amounted to \$28,670,738 or 89.34% of net assets, restricted net assets of \$95,290 or .30% and finally unrestricted net assets of \$3,327,254 or 10.36%. The restricted net assets are the net assets that resulted from Primary Road activities and are restricted by the Michigan Department of Transportation to be used on the Primary Roads. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure). The Road Commission has no related debt used to acquire those assets that is still outstanding. The Road Commission uses the capital assets to provide services to citizens; consequently these assets are not available for future spending. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, restricted and unrestricted net assets).

The following table presents the comparison of the net assets at December 31, 2006 and 2005 in a condensed format.

Condensed Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Assets		
Current and other unrestricted assets	\$ 3,817,831	\$ 3,318,990
Capital assets	<u>28,670,738</u>	<u>28,280,624</u>
Total Assets	<u>32,488,569</u>	<u>31,599,614</u>
Liabilities		
Long-term liabilities outstanding	74,326	75,099
Other liabilities	<u>320,961</u>	<u>251,032</u>
Total Liabilities	<u>395,287</u>	<u>326,131</u>
Net Assets:		
Invested in capital assets	28,670,738	28,280,624
Restricted	95,290	10,913
Unrestricted	<u>3,327,254</u>	<u>2,981,946</u>
Total Net Assets	<u>\$ 32,093,282</u>	<u>\$ 31,273,483</u>

Condensed Statement of Activities

	<u>2006</u>	<u>2005</u>
Revenues		
Intergovernmental -		
Permits	\$ 34,328	\$ 27,337
Federal Sources	825,085	423,022
State Sources	3,279,228	3,708,152
Local Sources	354,706	1,051,237
Charges for Services	468,429	597,802
Interest and rents	83,514	62,487
Other	<u>341,909</u>	<u>275,979</u>
	<u>5,387,199</u>	<u>6,146,013</u>
Expenses		
Maintenance	2,978,298	3,202,856
Administration	324,006	323,921
Equipment (net)	(524,190)	(550,900)
Depreciation	<u>1,789,286</u>	<u>1,651,403</u>
	<u>4,567,400</u>	<u>4,627,280</u>
Change in Net Assets	<u>\$ 819,799</u>	<u>\$ 1,518,733</u>

Financial Analysis of Governmental Fund Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$3,338,103, an increase of \$386,156 from the prior year. Approximately 97.14% or \$3,242,813 of the fund balance constitutes unreserved fund balance, which is available for spending at the road commission's discretion. Approximately 2.86% or \$95,290 has been reserved for expenditures related to primary roads and forest funds as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2006 budget to reflect status changes in maintenance and preservation-structural improvement projects. The final budget was \$51,004 greater on revenue than the original budget basically as a result of an increase in federal, state, and local funding to finance the increase in preservation-structural improvements projects, and a gain on the sale of equipment. The final budget was \$361,952 less in expenditures than the original budget basically due to the Road Commission not purchasing all capital outlay that was budgeted.

CAPITAL ASSETS

Capital Assets - The Road Commission had \$28,670,738 in capital assets at the end of the year. The reason for the increase from the previous year was the capitalization of construction/capital improvements and preservation-structural improvement, road and bridge projects funded by federal, state and local revenues.

A summary of capital assets net of accumulated depreciation at December 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Land and land improvements	\$ 10,587,580	\$ 10,106,804
Buildings	842,852	872,796
Equipment	1,083,836	994,138
Infrastructure	<u>16,156,470</u>	<u>16,306,886</u>
Total Capital Assets	<u>\$ 28,670,738</u>	<u>\$ 28,280,624</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of Commission revenue streams are declining. Long-term state fiscal crisis is starting to affect local abilities to provide increased levels of maintenance. Long-term crisis is also starting to affect cost sharing programs currently in effect with township transportation partners.

Our 2007 budget is programmed for revenues maintaining the current level in most areas, except for a major increase in federal and state funding for road preservation-structural improvements, and a slight decrease in MTF revenues.

Expenditures will increase dramatically in the areas of preservation-structural improvement with more road projects being planned to take advantage of the available federal and state funding to help offset project expenses. It is anticipated our fund equity will decrease by \$75,926 for 2007.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Alpena County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Alpena County Road Commission, 1400 N. Bagley Street, Alpena, Michigan, 49707.

BASIC FINANCIAL STATEMENTS

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,449,443	\$ -	\$ 1,449,443
Investments	1,000,000	-	1,000,000
Due from other governmental units -			
Federal	490,600		490,600
State	50,472	-	50,472
Local	71,069	-	71,069
Special assessments receivable	144,169	-	144,169
Accounts receivable	10,534	-	10,534
Interest Receivable	8,955	-	8,955
Prepaid expenditures/expenses	-	75,787	75,787
Inventory	516,802	-	516,802
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	10,587,580	10,587,580
Assets being depreciated	-	18,083,158	18,083,158
Total Assets	<u>\$ 3,742,044</u>	<u>\$ 28,746,525</u>	<u>\$ 32,488,569</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts payable	\$ 74,956	\$ -	\$ 74,956
Accrued liabilities	49,190	-	49,190
Due to other governmental units	40,800	-	40,800
Deferred revenue	82,980	(82,980)	-
Advances and deposits	156,015	-	156,015
Noncurrent liabilities -			
Due in more than one year	-	74,326	74,326
Total Liabilities	<u>403,941</u>	<u>(8,654)</u>	<u>395,287</u>

Fund Balance:

Fund Balance -			
Reserved -			
Primary roads	95,290	(95,290)	-
Unreserved -			
Undesignated	3,242,813	(3,242,813)	-
Total Fund Balance	<u>3,338,103</u>	<u>(3,338,103)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 3,742,044</u>		

Net Assets:

Invested in capital assets net of related debt		28,670,738	28,670,738
Restricted -			
Primary roads		95,290	95,290
Unrestricted		3,327,254	3,327,254
Total Net Assets		<u>\$ 32,093,282</u>	<u>\$ 32,093,282</u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 34,328	\$ -	\$ 34,328
Intergovernmental -			
Federal sources	825,085	-	825,085
State sources	3,279,228	-	3,279,228
Local sources	354,706	-	354,706
Charges for services	468,429	-	468,429
Interest and rents	83,514	-	83,514
Other	298,701	43,208	341,909
Total Revenues	<u>5,343,991</u>	<u>43,208</u>	<u>5,387,199</u>
Expenditures/Expenses:			
Current -			
Local construction/capacity improvements	40	(40)	-
Primary preservation - structural improvements	1,272,458	(1,272,458)	-
Local preservation - structural improvements	449,445	(449,445)	-
Primary maintenance	1,317,164	(161)	1,317,003
Local maintenance	1,178,634	(160)	1,178,474
State maintenance	482,821	-	482,821
Administrative - net	334,262	(10,256)	324,006
Equipment	1,261,356	(387,447)	873,909
Less equipment rental charged			
other activities	(1,398,099)	-	(1,398,099)
Depreciation	-	1,789,286	1,789,286
Capital Outlay	466,097	(466,097)	-
Less depreciation credit and retirements	(406,343)	406,343	-
Total Expenditures/Expenses	<u>4,957,835</u>	<u>(390,435)</u>	<u>4,567,400</u>
Excess of revenues over (under) expenditures/expenses	386,156	433,643	819,799
Fund Balance/Net Assets at January 1, 2006	<u>2,951,947</u>	<u>28,321,536</u>	<u>31,273,483</u>
Fund Balance/Net Assets at December 31, 2006	<u><u>\$ 3,338,103</u></u>	<u><u>\$ 28,755,179</u></u>	<u><u>\$ 32,093,282</u></u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 25,000	\$ 34,378	\$ 34,328	\$(50)
Intergovernmental -				
Federal sources	472,000	818,788	825,085	6,297
State sources	3,308,045	3,220,629	3,279,228	58,599
Local sources	390,525	375,429	354,706	(20,723)
Charges for services	767,573	465,471	468,429	2,958
Interest and rents	86,000	111,075	83,514	(27,561)
Other	70,105	144,482	298,701	154,219
	<u>5,119,248</u>	<u>5,170,252</u>	<u>5,343,991</u>	<u>173,739</u>
Expenditures:				
Current -				
Local construction/capacity improvements	19	40	40	-
Primary preservation - structural improvements	789,387	1,066,575	1,272,458	(205,883)
Local preservation - structural improvements	517,426	440,325	449,445	(9,120)
Primary maintenance	1,307,997	1,317,938	1,317,164	774
Local maintenance	1,232,806	1,183,084	1,178,634	4,450
State maintenance	407,573	482,821	482,821	-
Administrative	392,889	342,089	334,262	7,827
Equipment - net	(48,667)	(136,743)	(136,743)	-
Capital Outlay - net	518,523	59,872	59,754	118
Total Expenditures	<u>5,117,953</u>	<u>4,756,001</u>	<u>4,957,835</u>	<u>(201,834)</u>
Excess of revenues over (under) expenditures	1,295	414,251	386,156	(28,095)
Fund Balance at January 1, 2006	<u>2,951,947</u>	<u>2,951,947</u>	<u>2,951,947</u>	<u>-</u>
Fund Balance at December 31, 2006	<u>\$ 2,953,242</u>	<u>\$ 3,366,198</u>	<u>\$ 3,338,103</u>	<u>\$(28,095)</u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Alpena County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's financial statements.

A. Description of Road Commission Operations –

The Alpena County Road Fund, referred to as the Road Commission, is a component unit of the County of Alpena, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eight (8) Townships in Alpena County and maintains 660 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents – Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Investments represent certificates of deposit with maturity from date of purchase over ninety days and are recorded at cost which approximates fair value.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the average cost which approximates market.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

Accrued Vacation Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Deferred Revenues – In both the government-wide and the governmental fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Advances From The State of Michigan – The State of Michigan advances funds on a State maintenance agreement it has with the Alpena County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Estimates - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 3,338,103
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	43,506,111
Deduct – accumulated depreciation	(14,835,373)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(74,326)

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont'd):

Prepaid expenses not reported in the governmental fund statements	\$ 75,787
Revenues that have been deferred in the governmental fund statements because they are not “available”	<u>82,980</u>
Net Assets	<u>\$ 32,093,282</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues under expenditures - governmental fund statement	\$ 386,156
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add - capital outlay and infrastructure	2,188,040
Deduct - depreciation	(1,789,286)
Deduct - retirements	(8,640)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	43,208
Prepaid expense adjustment not reported in the governmental fund statements	(452)
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>773</u>
Change in Net Assets	<u>\$ 819,799</u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Chief Financial Officer prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is legally enacted through passage of a Board of County Road Commissioners Resolution. After the budget is adopted, the Chief Finance Officer is authorized to transfer amounts between items of the adopted budget at year-end to reflect the effects of the distribution of the distributive account. All other amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission's approved budget was adopted at the expenditure control level by activity. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act and the level requiring approval by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Expenditures at these legally adopted levels in excess of the amount budgeted are a violation of the Budgeting Act. During the year ended December 31, 2006, the Road Commission had expenditures over budget as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2006, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 200
Deposits with Financial Institutions	
Imprest Checking	4,504
Checking maintained by County Treasurer	1,444,739
Certificates of Deposit maintained by County Treasurer	<u>1,000,000</u>
	<u>\$ 2,449,443</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Alpena County Treasurer's Office, and in order to make disbursements, the Alpena County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Deposits –

As a component unit of Alpena County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Alpena County at banking institutions insured by federal depository insurance. However, the Road Commission by state statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Custodial Credit Risk – Deposits – is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission is in compliance with its investment policy in regards to custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts and certificates of deposit. At December 31, 2006, the carrying amount of the Road Commission's deposits is \$2,449,243, and the bank balance is \$2,600,658, of which \$200,000 is FDIC insured, with the remaining balance exposed to credit risk since it is uninsured and uncollateralized.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

Investments –

The Road Commission has reported certificates of deposit in the financial statements as investments since the date of maturity is greater than 90 days from the date of purchase.

NOTE 5 - SUBDIVISION STREET PAVING AND IMPROVEMENT PROGRAM:

The amount due on Special Assessments of \$144,169 at December 31, 2006, represents the amount due on three subdivision street paving and improvement programs. The amount of \$51,915 is due from a township at large with the balance of \$92,254 due from property owners.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2006, the Road Commission of Alpena County had less than \$500,000 of applicable federal awards for local force expenditures. As result, an audit for compliance under the Single Audit Act is not required.

The federal revenues of \$825,085 represent the Department of Transportation Federal Highway grant money expended on public road improvement projects, which were administered by the Michigan Department of Transportation, however, are required to be reported by the Road Commission.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2006	Additions	Deletions	Reclass and Removals	Balance December 31, 2006
Capital Assets, not being depreciated –					
Land	\$ 20,681	\$ -	\$ -	\$ -	\$ 20,681
Land improvements	10,003,705	480,775	-	-	10,484,480
Right of Ways	<u>82,418</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>82,419</u>
Total Capital Assets, not being depreciated	<u>10,106,804</u>	<u>480,776</u>	<u>-</u>	<u>-</u>	<u>10,587,580</u>
Capital Assets, being depreciated –					
Buildings and improvements	1,527,058	2,321	-	-	1,529,379
Road Equipment	4,040,775	460,316	(311,443)	-	4,189,648
Shop Equipment	144,070	2,676	-	-	146,746
Office Equipment	135,331	400	-	-	135,731
Engineering equipment	57,719	384	-	-	58,103
Yard and storage	204,365	-	-	-	204,365
Infrastructure -					
Roads	21,909,485	1,236,275	-	1,056,757	22,089,003
Bridges	4,391,449	4,892	-	-	4,396,341
Traffic signals	24,831	-	-	-	24,831
Depletable assets –					
Gravel pits	<u>148,634</u>	<u>-</u>	<u>(4,250)</u>	<u>-</u>	<u>144,384</u>
	<u>32,583,717</u>	<u>1,707,264</u>	<u>(315,693)</u>	<u>1,056,757</u>	<u>32,981,531</u>
Less – accumulated depreciation for –					
Buildings and improvements	654,262	32,265	-	-	686,527
Road Equipment	3,168,472	329,919	302,803	-	3,195,588
Shop Equipment	82,241	10,227	-	-	92,468
Office Equipment	116,178	6,792	-	-	122,970
Engineering Equipment	47,761	3,463	-	-	51,224
Yard and Storage	173,470	15,037	-	-	188,507
Infrastructure –					
Roads	8,577,539	1,300,372	-	1,056,757	8,821,154
Bridges	1,420,523	90,155	-	-	1,510,678
Traffic signals	20,817	1,056	-	-	21,873
Depletable Assets	<u>148,634</u>	<u>-</u>	<u>4,250</u>	<u>-</u>	<u>144,384</u>
	<u>14,409,897</u>	<u>1,789,286</u>	<u>307,053</u>	<u>1,056,757</u>	<u>14,835,373</u>
Total Capital Assets, being depreciated, net	<u>18,173,820</u>	<u>(82,022)</u>	<u>(8,640)</u>	<u>-</u>	<u>18,083,158</u>
Governmental activity capital assets, net	<u>\$ 28,280,624</u>	<u>\$ 398,754</u>	<u>\$(8,640)</u>	<u>\$ -</u>	<u>\$28,670,738</u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 - GENERAL LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2006:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2006</u>
Accrued vacation	\$ 75,099	\$ -	\$ 773	\$ 74,326

Significant details regarding outstanding long-term liabilities are presented below:

Accrued Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated vacation leave under formulas and conditions specified in the contracts. The dollar amounts of these vested rights which have been accrued on the financial statements amounts to approximately \$74,326 at December 31, 2006.

NOTE 9 - EMPLOYEE PENSION PLAN:

Plan Description -

The Alpena County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Road Commission is required to contribute at an actuarially determined rate; the computed employer contribution average rate for 2006 was 12.78% for general and 18.14% for managing director. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 9 - EMPLOYEE PENSION PLAN – (cont'd):

Annual Pension Costs -

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$166,882 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to merit/longevity, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over the remaining period of 30 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u> <u>December 31,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2004	\$ 137,026	100 %	-
2005	149,010	100	-
2006	166,882	100	-

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL) Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(AAL)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll</u> <u>[(b-a)/c]</u>
2003	\$ 7,127,445	\$ 7,764,676	\$ 637,231	92	\$ 1,265,692	50 %
2004	7,380,752	8,286,597	905,845	89	1,300,692	70
2005	7,619,473	8,576,072	956,599	89	1,315,932	73

NOTE 10 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 9, the Alpena County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission between the ages of 60 and 65. At 65 and above, the Road Commission also contributes \$94 per month towards the cost of Medicare. Expenditures for post-employment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2006 these costs amounted to approximately \$5,456 with 9 eligible participants.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 11 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

The Road Commission participates in a number of agreements with the State of Michigan by which the Road Commission receives advances and reimbursements per the agreements. These advances and reimbursements are subject to audit by the State of Michigan. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

There are various legal actions pending against the Road Commission. Due to the inconclusive nature of many of the actions, it is not possible to determine the probable outcome or a reasonable estimate of the Road Commission potential liability, if any. The potential liability from legal actions, if any, is considered to be immaterial to the Road Commission.

NOTE 12 - ADVANCES AND DEPOSITS:

Advances of \$156,015 at December 31, 2006, are advanced by the State of Michigan for working capital and equipment purchases under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance at December 31, 2006:

State -	
Trunkline maintenance	\$ 47,429
Equipment	<u>108,586</u>
	<u>\$ 156,015</u>

NOTE 13 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool. The "Pool" established pursuant to the laws of the State of Michigan authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commission, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Alpena County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 13 - RISK MANAGEMENT – (cont'd):

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlement claims for the last three years has not exceeded insurance coverage.

NOTE 14 - EQUIPMENT EXPENDITURE CREDIT BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions, charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The credit balance is the result of the equipment rental charged exceeding actual equipment expenditures for the year ended December 31, 2006 as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 723,993	\$ 394,074
Indirect	284,882	227,354
Operating	<u>252,481</u>	<u>252,481</u>
	1,261,356	873,909
Less-equipment rental	<u>(1,398,099)</u>	<u>(1,398,099)</u>
	<u><u>\$ (136,743)</u></u>	<u><u>\$ (524,190)</u></u>

SUPPLEMENTARY INFORMATION

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Permits -	\$ 34,328	\$ 27,334
Federal Sources -		
Federal STP program	87,550	398,744
Federal aid bridge	-	-
Federal D Funds	-	24,278
Other	737,535	-
	<u>825,085</u>	<u>423,022</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	2,050,421	2,086,957
Local roads	972,768	978,218
Urban roads	148,625	150,801
Snow removal	26,370	27,549
Economic Development Fund	71,044	71,045
Critical bridge	-	383,582
	<u>3,279,228</u>	<u>3,708,152</u>
Local Sources -		
Township and city contributions	346,056	1,050,924
County	8,650	-
Private	-	313
	<u>354,706</u>	<u>1,051,237</u>
Charges for Services -		
Trunkline maintenance & nonmaintenance	465,000	591,609
Salvage sales	3,429	6,193
	<u>468,429</u>	<u>597,802</u>
Interest and rents	<u>83,514</u>	<u>64,712</u>
Other -		
Land and building sales	4,250	-
Gain on equipment disposal	134,588	225,722
Special assessments	59,901	44,581
Other	99,962	49,642
	<u>298,701</u>	<u>319,945</u>
Total Revenues	<u><u>\$ 5,343,991</u></u>	<u><u>\$ 6,192,204</u></u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Expenditures:	<u>2006</u>	<u>2005</u>
Construction/Capacity Improvements	\$ 40	\$ 13,466
Preservation - Structural Improvements		
Primary roads and structures	1,272,458	3,161,919
Local roads and structures	<u>449,445</u>	<u>831,591</u>
	<u>1,721,903</u>	<u>3,993,510</u>
Maintenance -		
Primary roads and structures, winter and traffic control	1,317,164	1,266,483
Local roads and structures, winter and traffic control	<u>1,178,634</u>	<u>1,349,530</u>
	<u>2,495,798</u>	<u>2,616,013</u>
State Maintenance -		
Trunkline maintenance	482,821	561,948
Trunkline nonmaintenance	<u>-</u>	<u>29,661</u>
	<u>482,821</u>	<u>591,609</u>
Equipment -		
Direct	723,993	732,531
Indirect	284,882	264,104
Operating	252,481	227,957
Less - equipment rental	<u>(1,398,099)</u>	<u>(1,405,110)</u>
	<u>(136,743)</u>	<u>(180,518)</u>
Administrative -		
Administration	402,418	405,883
Less - overhead	<u>(58,657)</u>	<u>(68,026)</u>
- purchase discounts	<u>(1,864)</u>	<u>(3,623)</u>
- handling charges	<u>(7,635)</u>	<u>-</u>
	<u>334,262</u>	<u>334,234</u>
Capital Outlay -		
Equipment	466,097	599,378
Less - depreciation	<u>(397,703)</u>	<u>(402,638)</u>
- retirements	<u>(8,640)</u>	<u>-</u>
	<u>59,754</u>	<u>196,740</u>
Total Expenditures	<u><u>\$ 4,957,835</u></u>	<u><u>\$ 7,565,054</u></u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Permits -	\$ -	\$ -	\$ 34,328	\$ 34,328
Intergovernmental -				
Federal Sources	825,084	-	-	825,084
State Sources	2,163,595	1,115,634	-	3,279,229
Local Sources	-	354,706	-	354,706
Charges for services	-	-	468,429	468,429
Interest	-	-	83,514	83,514
Other	-	64,151	234,550	298,701
Total Revenues	<u>2,988,679</u>	<u>1,534,491</u>	<u>820,821</u>	<u>5,343,991</u>
Expenditures:				
Construction/Capacity Improvements	-	40	-	40
Preservation - Structural Improvements	1,272,458	449,445	-	1,721,903
Maintenance	1,317,164	1,178,634	-	2,495,798
State maintenance	-	-	482,821	482,821
Equipment - net	(56,735)	(56,475)	(23,533)	(136,743)
Administrative-net	205,231	129,031	-	334,262
Capital outlay - net	-	-	59,754	59,754
Total Expenditures	<u>2,738,118</u>	<u>1,700,675</u>	<u>519,042</u>	<u>4,957,835</u>
Excess of revenues over (under) expenditures before optional transfers	250,561	(166,184)	301,779	386,156
Optional Transfers	<u>(166,184)</u>	<u>166,184</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	84,377	-	301,779	386,156
Fund Balance at beginning of year	<u>10,913</u>	<u>-</u>	<u>2,941,034</u>	<u>2,951,947</u>
Fund Balance at end of year	<u>\$ 95,290</u>	<u>\$ -</u>	<u>\$ 3,242,813</u>	<u>\$ 3,338,103</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of County Road Commissioners
of Alpena County
Alpena, Michigan

We have audited the financial statements of Alpena County Road Commission as of and for the year ended December 31, 2006, and have issued our report thereon, dated April 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Alpena County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alpena County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Alpena County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Alpena County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alpena County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Alpena County Road Commission's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting:

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review and determine that the financial report is accurate, however, has not elected to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Alpena County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alpena County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Alpena County Road Commission in a separate letter dated April 11, 2007.

This report is intended for the information and use of the management and Board of County Road Commissioners of Alpena County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

April 11, 2007

MANAGEMENT LETTER

To the Board of County Road Commissioners
of Alpena County
Alpena, Michigan

We have recently completed our audit of the basic financial statements of the Alpena County Road Commission as of and for the year ended December 31, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Road Commission's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the ***Report on Internal Accounting Controls*** these observations were not considered significant deficiencies in relation to the basic financial statements of the Road Commission.

Adoption of an Investment Policy

The County Treasurer as the custodian of the Road Commission cash performs the investing under the County Investment policy.

The Michigan Department of Treasury believes that a Road Commission should have its own formal board approved investment policy that documents the Road Commission's policy on acceptable deposit and investment risks. The Road Commission should have the investment policy even with the County Treasurer being responsible for maintaining Road Commission cash.

We recommend that a formal investment policy be adopted by the County Board of Road Commissioners.

Public Hearing for General Appropriations Act

The Road Commission adopts a General Appropriations Act (Budget) at a Board of Road Commissioners public meeting, at which time citizens attending are allowed to comment. However, a separate public hearing is not held.

We recommend that the Board of Road Commissioners adopt the 2008 General Appropriations Act after a public hearing has been held to be in compliance with PA 2 of 1968, as amended.

Board Approval of Expenditures

The Michigan Department of Treasury requires that it be reported on the Audit Procedures Report whether the Board approves all invoices prior to payment.

We recommend that since the Board of County Road Commissioners has delegated this review process to the Managing Director that the delegation be formally documented as to acceptance under state statute.

Controls over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

These observations were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2006, financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of management, the Road Commission Board, others within the Road Commission, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these observations with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvire Whipple".

April 11, 2007